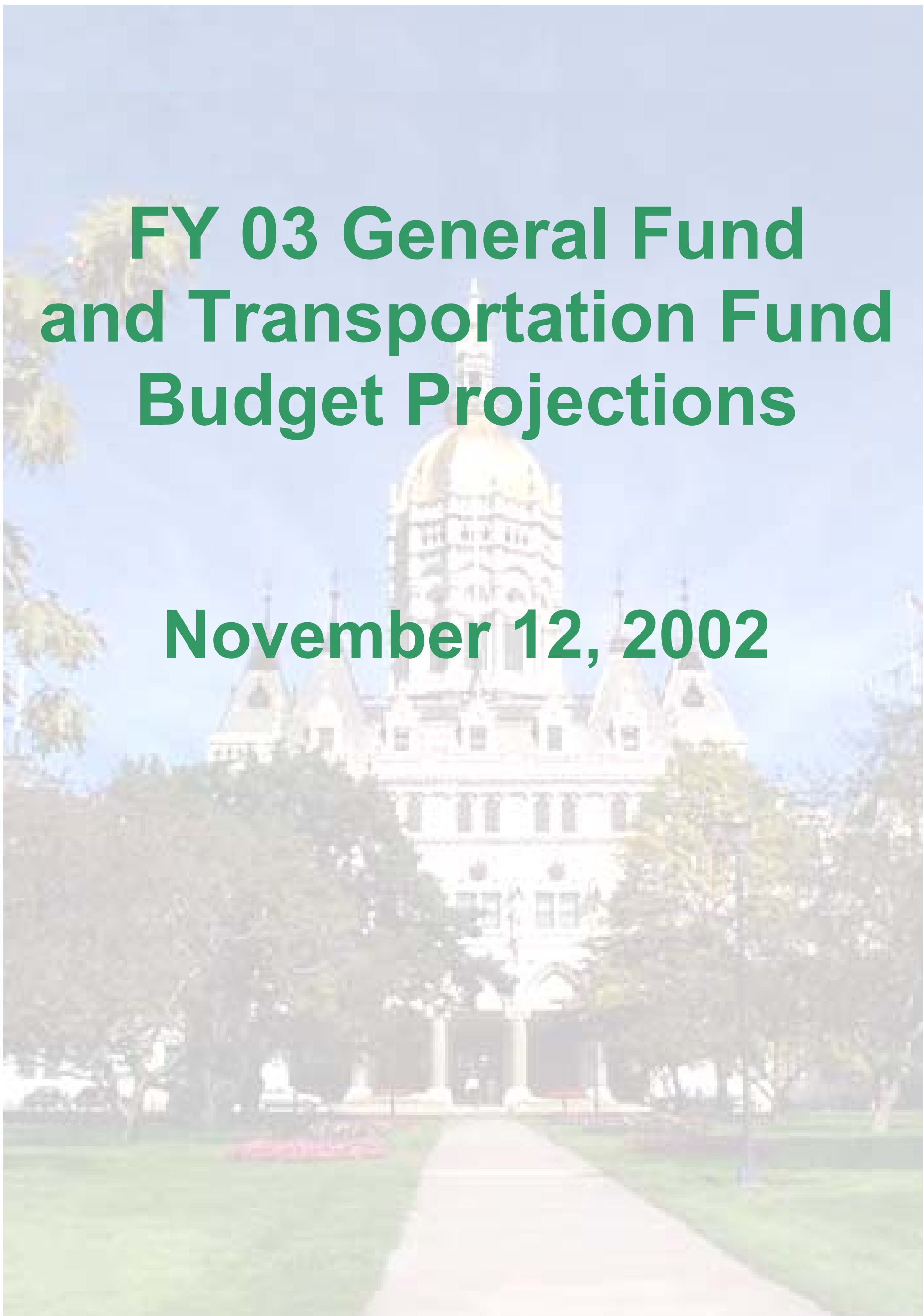
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



FY 03 General Fund and Transportation Fund Budget Projections

November 12, 2002

Report Highlights

- **FY 03 General Fund deficit** is projected at **$495.5 million.** **Click here for details.**

- **FY 03 Transportation Fund operating surplus** is projected at **$3 million**, which would increase the **cumulative surplus** from $189.7 million to **$192.7 million.** **Click here for details**.

- **FY 04 through FY 08 projections indicate that the Transportation Fund will not experience an annual operating deficit until FY 08, which will lower the cumulative surplus of the prior years to $214.7 million in FY 08.** **Click here for details.**

FY 03 General Fund and Transportation Fund Budget Projections

(as of November 12, 2002)

I. General Fund

Our projections for the fiscal year ending June 30, 2003 indicate a **potential deficit of $495.5 million** (which represents 4.1% of the original budget). This deficit is based on **current estimated revenues** and **estimated expenditures** that **are $111.4 million higher than original net appropriations.** While the projected General Fund deficit is $495.5 million, **this estimate may change if there is further deterioration in economic conditions or if the $94 million in unspecified additional savings anticipated in the revised FY 03 budget (and reflected as a lapse increase) is not fully achieved.**

Revenues

Total FY 03 General Fund revenue after refunds and transfers is expected to be $11.7 billion. General Fund revenue for FY 03 is anticipated to grow by 2.5% after adjusting for tax ($180.4 million) and one-time revenue enhancements ($400.2 million).

Our revenue estimates incorporate revenue collections realized through the first quarter of the fiscal year plus our expectations for the remaining nine months. The following explanations compare FY 03 projections with FY 02 actual receipts rather than FY 03 budget plan estimates, because revenue estimates were not readopted when the FY 03 budget was revised.

Revenue from the personal income tax, which makes up roughly 35% of total General Fund revenue, is expected to decline in FY 03 compared to FY 02 due to lingering uncertainties over the economy. Our estimates assume the growth in revenue will decline overall by 2.5%, which is comprised of taxes from wages and salaries growing by 2% and from taxes non-wage sources (primarily from capital gains, interest and dividends) declining by 15%. Taxes from wages did not grow in the first quarter. Normal growth usually experienced as a result of pay raises appears to have been offset by reductions in collections resulting from less overtime and layoffs. Revenue generated from unearned income sources (primarily from capital gains, interest, and dividends) declined by 13% in the first quarter of FY 03. Our estimates assume that we will continue to see this same pattern for the remainder of the fiscal year.

The sales and use tax, which makes up roughly 26% of total General Fund revenue, is expected to marginally increase compared to FY 02. Collections for the first quarter did not experience any growth compared to collections for the same period last year. Business spending remains sluggish and consumer confidence has declined, which has lead to weak first quarter collections, only growing by .5%. Our estimates assume that the sales tax revenue will grow by 2.9% for the year in anticipation that business spending will pick up in the second half of the fiscal year and autos as well as housing sales will remain strong due to favorable interest rates.

After a double-digit decline in the rate of growth in corporate profits in FY 02 as sales fell faster than businesses' ability to reduce costs, our corporation business tax estimate assumes a rebound in FY 03. Businesses are anticipated to increase profit levels in FY 03 through a combination of: (1) cost cutting measures, (2) steps taken to increase in productivity, and (3) historically low interest rates. First quarter collections were $15 million higher than last year, which was an increase of 28%. While the increase is probably due to forecasts of improved profit levels, it may also be partially because of recently enacted tax changes.

The public service companies (gross receipts tax on regulated gas, electric, and cable television companies) and oil companies taxes are expected to rebound after disappointing collections in FY 02. Energy prices have been steadily increasing during the past year, which is anticipated to lead to higher gross receipts and therefore higher revenues.

After a double-digit decline in revenue Inheritance and Estate in FY 02, our estimate assumes that revenues will moderately grow (9.2%) in FY 03 as a result of a few large estates settled in July.

The significant increase in revenue from Rents, Fines, and Escheats in FY 03 compared to FY 02 is due to the expectation that the State Treasurer will liquidate an additional $35 million in unclaimed property.

Transfers to Resources contains many one-time revenue items such as transfer of funds from quasi-public agencies ($100 million), transfers from the Tobacco Heath Trust Fund and the Biomedical Research Trust Fund ($52.8 million), proceeds from the liquidation of stock resulting from Anthem's demutualization ($127.2 million), and transfers from various funds and accounts ($8.2 million).

Expenditures

The $111.4 million increase in expenditures is largely attributable to projected deficiencies totaling $93.4 million. Of this amount, $69.7 million in net deficiencies are occurring within the Department of Social Services.

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $9 million and Refunds of Escheated Property at $9 million.

Identified lapses currently total $26.6 million out of the $174.4 million anticipated in the budget. The largest identified lapse is in debt service and totals a net $16.5 million (see explanation below).

The $174.4 million lapse anticipated in the budget includes an unspecified increase of $94 million above the lapse included in the original FY 03 budget. The projected $495.5 million deficit for FY 03 could be higher if the $94 million in unspecified additional savings anticipated in the revised FY 03 budget (and reflected as a lapse increase) is not fully achieved.

It should be noted that the $174.4 million lapse anticipated in the budget is in addition to the $77.5 million in budgeted savings from holdbacks related to Personal Services, Other Expenses, the hard (hiring) freeze, the managerial wage freeze and the extraordinary governor's recision authority. The budget anticipates that a total savings of $251.9 million will be realized from lapses, holdbacks and the governor's extraordinary recision authority. The governor has implemented the holdbacks, but has not imposed any recisions at this time.

Explanation for Significant Debt Service Lapse - The estimated lapse of $16.5 million in the General Fund debt service account is a combination of $21.8 million in savings and $5.3 million in increased expenditures. The savings are: (1) $16.1 million in premiums[1] received on General Obligation (GO) bonds issued between June and December 2002, (2) $4.7 million in savings from refunding issues in June and August 2002, and (3) a $1 million decrease in estimated arbitrage rebate expenses for FY 03.

The increase of $5.3 million is due to changes made by acts passed after the budget was adopted: (1) PA 02-5 of the May 9 Special Session increased bonding for school construction grants-in-aid by an additional $50 million, which will require approximately $1.4 million in debt service payments, and (2) SA 02-1 of the May 9 Special Session authorized the issuance of Economic Recovery Notes (ERNs), which will require approximately $3.9 million in interest payments in FY 03. (The ERN estimate assumes that $222.4 million will be issued before 12/31/02 at a fixed interest rate of 3.5%. The act provides that no principal will be paid in the fiscal year of issuance.)

The General Fund ended FY 02 with an operating deficit of $817.1 million, which was partially covered by transferring the full $594.7 million balance from the Budget Reserve (Rainy Day) Fund. The remaining $222.4 million will be financed through an Economic Recovery Debt Retirement Fund established by SA 02-1 (May 9 Special Session). The act provides that the notes will be financed over 5 years ending in FY 08. In addition to the $222.4 million principal payment, interest costs are estimated to be $23.4 million for a total payment of $245.8 million. It is anticipated that $3.9 million in debt service payments will be made beginning in FY 03.

[1] Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.

FY 03 General Fund Summary
as of November 12, 2002
(in millions)

	FY 03 Estimate	
Revenues		
Taxes	$ 8,051.4	
Other Revenue	1,043.9	
Other Sources	2,612.4	
Total Revenue	**$ 11,707.7**	
Appropriations		
Original Appropriations – Gross	$ 12,343.7	
Less:		
Estimated Budgeted Lapses	(251.9)	[1]
Plus:		
Estimated Deficiency Appropriations	93.4	
Estimated Adjudicated Claims	9.0	
Estimated Refunds of Escheated Property	9.0	
Total Estimated Expenditures	**$ 12,203.2**	
Projected Surplus / (Deficit) from Operations	**$ (495.5)**	**[2]**

[1] Estimated Budgeted Lapses include:

($174.4)	unallocated budgeted lapses
(24.5)	general PS and OE reductions (holdbacks)
(7.0)	hard (hiring) freeze (holdback)
(11.0)	managerial wage freeze (holdback)
(35.0)	extraordinary governor's recision authority
($251.9)	

The $174.4 million unallocated lapse anticipated in the budget includes an unspecified increase of $94 million above the lapse included in the original FY 03 budget. The projected $495.5 million deficit for FY 03 could be higher if the $94 million in unspecified additional savings anticipated in the revised FY 03 budget (and reflected as a lapse increase) is not fully achieved. The governor has implemented the holdbacks, but has not imposed any recisions at this time.

[2] The transfer of $594.7 million (to partially cover the FY 02 deficit in accordance with Sec. 4-30a, CGS) reduced the Budget Reserve (Rainy Day) Fund to zero.

FY 03 General Fund Revenue
as of November 12, 2002
(in thousands)

	Growth Rate % [1]	Actual FY 02	Growth Rate % [1]	OFA Estimate FY 03
Taxes				
Personal Income	(10.2)	$4,265,900	(2.5)	$4,160,000
Sales and Use	0.1	2,997,700	2.9	3,104,100
Corporations	(23.2)	381,000	8.0	455,900
Inheritance and Estate	(33.8)	153,100	9.2	160,000
Public Service Corporations	(7.7)	166,600	4.0	173,500
Insurance Companies	8.6	217,400	3.3	224,500
Cigarettes	2.7	160,900	0.0	238,900
Oil Companies	(28.4)	24,300	21.3	83,600
Real Estate Conveyance	7.5	120,700	0.0	120,700
Alcoholic Beverages	1.4	41,700	2.4	42,700
Miscellaneous	(25.2)	26,300	0.0	28,100
Admissions, Dues and Cabaret	8.8	26,900	3.7	27,900
Total Taxes		**$8,582,500**		**$8,819,900**
Refunds of Taxes		($829,600)		($754,500)
R & D Credit Exchange		(21,900)		(14,000)
Net General Fund Taxes		**$7,731,000**		**$8,051,400**
Other Revenue				
Transfer Special Revenue		$277,600		$269,500
Indian Gaming Payments		369,000		399,000
Licenses, Permits and Fees		137,500		132,400
Sales of Commodities and Services		30,500		28,000
Rentals, Fines and Escheats		47,600		84,300
Investment Income		23,800		15,000
Miscellaneous		114,300		116,200
Total Other Revenue		**$1,000,300**		**$1,044,400**
Refunds of Payments		($400)		($500)
Net Other Revenue		**$999,900**		**$1,043,900**
Other Sources				
Federal Grants		$2,142,300		$2,314,700
Transfer from Tob. Settlement Fund		120,000		133,000
Transfer to the Resources of the General Fund		0		286,000
Transfer to Other Funds		(147,700)		(121,300)
Total - Other Sources		**$2,114,600**		**$2,612,400**
Total Revenue		**$10,845,500**		**$11,707,700**

[1] Tax growth rates reflect adjustments for rate and base changes.

FY 03 Projected General Fund Deficiencies

State Insurance & Risk Management Board

OPM Deficiency	*OFA Net Deficiency*	*Less: Available Holdbacks*	*OFA Net Balance*
$(1,200,000)	**$(1,200,000)**	**$300,000**	**$(900,000)**

The State Insurance & Risk Management Board has a projected deficiency of $1.2 million, which represents 12.3% of the FY 03 appropriation. This assumes that the following holdback is not released: Other Expenses ($.3 million). If the holdback is released, an estimated net negative balance of $.9 million would result.

This net deficiency is due to higher premiums for property and casualty coverage beyond budgeted levels.

Department of Mental Health and Addiction Services

OPM Deficiency	*OFA Net Deficiency*	*Less: Available Holdbacks*	*OFA Net Balance*
$(1,500,000)	**$(2,120,000)**	**$4,500,000**	**$2,380,000**

The Department of Mental Health and Addiction Services has a projected net deficiency of $2.12 million, which represents .5% of the FY 03 appropriation. This assumes that $130,000 in potential lapsing funds are made available via FAC transfer and the following holdbacks are not released: Personal Services ($1,744,822), Other Expenses ($906,641), hard (hiring) freeze ($510,958) and managerial wage freeze ($1,341,334). If the holdbacks are released, an estimated net positive balance of $2.38 million would result.

This net deficiency is primarily due to personal services ($850,000), workers' compensation ($837,000), other expenses ($119,000) and professional services ($331,000). The personal and professional services deficiencies are primarily due to continued difficulties in filling nursing and pharmacy positions at Connecticut Valley Hospital. The workers' compensation deficiency is due to the continued settlement of old claims. The other expenses deficiency is largely due to laundry replacement and higher heating oil cost at Cedarcrest Hospital.

Department of Social Services

OPM Deficiency	*OFA Net Deficiency*	*Less: Available Holdbacks*	*OFA Net Balance*
$(57,000,000)	**$(69,700,000)**	**$5,100,000**	**$(64,600,000)**

The Department of Social Services has a projected net deficiency of $69.7 million, which represents 1.9% of the FY 03 appropriation. This assumes that $15.4 million in potential lapsing funds are made available via FAC transfer. Significant potential lapses are anticipated in the following accounts: Supplemental Assistance ($1.75 million); Temporary Family Assistance ($5.3 million); Personal Services ($3.4 million); and HUSKY ($2 million). The projected net deficiency assumes that the following holdbacks are not released: Personal Services ($909,836), Other Expenses ($2,871,625), hard (hiring) freeze ($850,728) and managerial wage freeze ($495,138). If the holdbacks are released, an estimated net negative balance of $64.6 million would result.

This gross deficiency is primarily due to increased costs in Medicaid, ConnPACE and State-Administered General Assistance.

Medicaid

Medicaid expenditures are estimated to be $68.5 million greater than appropriated for FY 03 based upon 3 months of actual and 9 months of projected data. This represents a 2.6% shortfall in the $2.6 billion account for long-term care and health services.

While almost all areas of Medicaid health services are currently exceeding appropriated levels, nearly one-third of the $68.5 million -- $22.8 million -- is projected to occur in long-term care. The other two-thirds of the projected deficiencies are found in pharmacy, transportation, home health care, and managed care (HUSKY). Pharmacy costs continue to rise and the cost savings initiatives continue to be difficult to implement and administer. However, the current deficiency is relatively small in comparison to the projected level of expenditures at $318.6 million for prescription drugs, $13 million in excess of the appropriated level. The deficiency represents 4% of the estimated expenditures.

The projected deficiency in the Managed Care (HUSKY A) program is preliminary, based upon robust enrollment for the past fiscal year. If enrollment levels off, the deficiency may be less than is currently projected. However, with higher rates of unemployment, HUSKY enrollment could also increase beyond expectations. Finally, no long-term trend data is yet available for FY 03 to indicate if nursing home bed days, a major factor in long-term costs, are exceeding expectations.

ConnPACE

A $3.7 million deficit is projected under the Connecticut Pharmaceutical Assistance Contract to the Elderly and the Disabled (ConnPACE) Program. This shortfall is due to anticipated delays in implementation of budgeted pharmacy savings initiatives, and price and utilization trends in excess of original projections. An estimated $67.6 million will be expended. Current available funds equal $63.9 million.

State-Administered General Assistance

The State Administered General Assistance program currently has a projected deficiency of $11.2 million, which represents 10.6% of the FY 03 appropriation. This deficiency is largely due to continued increased medical costs under the program, particularly in the areas of hospital services (both inpatient and outpatient) and pharmaceutical benefits. Both the cost of services as well as the number of services rendered have increased more than anticipated in these service areas.

Department of Children and Families

OPM Deficiency	***OFA Net Deficiency***	***Less: Available Holdbacks***	***OFA Net Balance***
$(3,000,000)	**($6,500,000)**	**$4,100,000**	**($2,400,000)**

The Department of Children and Families has a projected net deficiency of $6.5 million, which represents 1.1% of the FY 03 appropriation. This assumes that $7.3 million in potential lapsing funds are made available via FAC transfer and the following holdbacks are not released: Personal Services ($1.6 million), Other Expenses ($1.1 million), hard (hiring) freeze ($0.4 million) and managerial wage freeze ($1.0 million). If the holdbacks are released, an estimated net negative balance of $2.4 million would result.

Contributing to the shortfall is a projected $3.9 million deficit under the Personal Services account due to the hiring of 73 positions that were not authorized within PA 02-1 (MSS). Of these, 28 have been hired in anticipation of moving female clients from Long Lane School to a new cottage at Connecticut Children's Place. The remaining 45 positions are to facilitate compliance with the Exit Plan for the Juan F. Consent Decree. A shortfall of $1.5 million is projected under the Other Expenses account for costs incurred to support these staff as well as comply with other Consent Decree mandates. Other line items having shortfalls based on revised cost and caseload projections include the Workers' Compensation Claims ($2.5 million), No Nexus Special Education ($1.2 million) and Board and Care for Children – Adoption ($4.7 million) accounts.

It is anticipated that these shortfalls will be partially offset by transfers of $7.3 million in lapsing funds from other agency accounts. Of this, $5.1 million is anticipated under the Board and Care for Children – Foster account due to lower than anticipated caseloads. Additional lapsing funds of $2.2 million are anticipated under various line items due to anticipated delays in new program implementation.

It should be noted that the Office of Policy and Management's projected $3 million shortfall assumes a deficiency in the Workers' Compensation Claims account alone.

Department of Administrative Services (DAS) – Workers' Compensation Claims

OPM Deficiency	*OFA Net Deficiency*	*Less: Available Holdbacks*	*OFA Net Balance*
$(2,500,000)	**$(3,500,000)**	**$0**	**$(3,500,000)**

The DAS - WC Claims account has a projected deficiency of $3.5 million, which represents 28% of the FY 03 appropriation of $12.5 million. This is due to rising workers' compensation claims, particularly medical claim costs. Medical claim costs for the first three months of FY 03 are $2.6 million versus $1.8 million for the same period last year, an increase of 44.4%.

State Employees Health Service Cost

OPM Deficiency	*OFA Net Deficiency*	*Less: Available Holdbacks*	*OFA Net Balance*
$(1,700,000)	**$(1,700,000)**	**$0**	**$(1,700,000)**

The State Employees Health Service Cost account has a projected deficiency of $1.7 million, which represents .6% of the FY 03 appropriation. This deficiency is due to the fact that premium rates were finalized at a level that is higher than the preliminary budgeted premium rate.

Retired State Employees Health Service Cost

OPM Deficiency	*OFA Net Deficiency*	*Less: Available Holdbacks*	*OFA Net Balance*
$(8,700,000)	**$(8,700,000)**	**$0**	**$(8,700,000)**

The Retired State Employees Health Service Cost account has a projected deficiency of $8.7 million, which represents 3.7% of the FY 03 appropriation. This deficiency is due to the fact that premium rates were finalized at a level that is higher than the preliminary budgeted premium rate.

Total Projected General Fund Deficiencies:

OPM Deficiencies	*OFA Net Deficiencies*	*Less: Available Holdbacks*	*OFA Net Balance*
$(75,600,000)*	**$(93,420,000)****	**$14,000,000*****	**$(79,420,000)**

*OPM deficiency amounts reflect projections made on October 25, 2002.

**OFA gross deficiencies actually total $118.8 million, though it is anticipated that approximately $25.4 million in lapses within various accounts will be available to be transferred within agencies to partially offset the amount of deficiency appropriations required.

***Includes: Holdbacks related to PS, OE, the hard (hiring) freeze and the managerial wage freeze.

Summary of General Fund Lapsing Appropriations for FY 03

		Amount (in millions)
Status of Budgeted Lapses:		
Legislative Management	$ 2.2	
Office of Policy and Management	1.1	
Department of Labor	2.5	
Debt Service	16.5	
Total - Significant Identified Lapsing Appropriations	$ 22.3	
Other Identified Lapses (less than $1 million each)	4.3	
Unidentified Lapses	147.8	
Subtotal		$ 174.4
Other Reductions:		
Personal Services Reduction (holdback)	$ 13.5	
Other Expenses Reduction (holdback)	11.0	
Hard (Hiring) Freeze (holdback)	7.0	
Managerial Wage Freeze (holdback)	11.0	
Extraordinary Governor's Recision Authority	35.0	
Subtotal		77.5
Total Projected Lapses Anticipated in the Budget		***$ 251.9***

II. Transportation Fund

FY 03 through FY 08 projections indicate that the Transportation Fund will not experience an annual operating deficit until FY 08. This is attributable to anticipated higher Motor Fuels Tax collections, which will result in higher cumulative surpluses. The Town Aid Road Grant is funded for one time in FY 03 from the Transportation Fund and therefore it is not included in estimates for fiscal years 2004 through 2008.

Revenues

Motor Fuels Tax collections for FY 03 are estimated to be $31.3 million above FY 02 collections. Of that amount, $25 million is attributable to an increase in Diesel Fuels Tax from 18 cents to 26 cents per gallon.

Expenditures

For FY 03 Town Road Aid Grant is funded for one time in FY 03 from the Transportation Fund instead of the General Fund as it has been prior to FY 03. Town Aid Road Grant is not included in the Transportation Fund estimates for fiscal years 2004 through 2008.

Also for FY 03, the budgeted lapse is increased by $2.6 million to a total of $17.6 million, to reflect holdbacks for the managerial wage freeze and hiring freeze not included as decreases from the original Transportation Fund appropriation.

FY 03 Transportation Fund Summary
as of November 12, 2002
(in millions)

	FY 02 Actual		FY 03 OFA Estimate	
Revenues				
Taxes	$	533.7	$	539.6
Other Revenue (incl. Refunds of Payments)		363.2		364.0
Total Revenue	$	896.9	$	903.6
Appropriations				
Original Approrpiations - Gross	$	855.7	$	918.2
Less: Lapse[1]		(17.4)		(17.6)
Plus: Deficiency Appropriations - Reserve for Salary Adjustment[2]		4.6		-
Total Expenditures[3]	$	842.9	$	900.6
Surplus from Operations as of June 30th	**$**	**54.0**	**$**	**3.0**
Plus: Cumulative Surplus as of June 30th (prior year)		**135.7**		**189.7**
Projected Fund Balance as of June 30th	**$**	**189.7**	**$**	**192.7**

[1] FY 03 estimate includes budgeted lapses of $15 million and a Wage and Hiring Freeze lapse of $2.6 million.

[2] Appropriated $4.6 million to cover a FY 02 Salary Adjustment deficiency which resulted from approval in July 2001 of the Maintenance and Service (NP-2) contract that exceeded the amount originally budgetted.

[3] Generally, excludes expenditures from prior year carry forwards and appropriations from projected surplus.

FY 03 Transportation Fund Revenues
as of November 12, 2002
(in millions)

	FY 02 Actual		FY 03 OFA Estimate	
TAXES				
Motor Fuels Tax	$	430.3	$	461.6
Petroleum Products Tax		46.0		20.0
Sales Tax - DMV		65.2		66.0
Refund of Taxes		(7.8)		(8.0)
Total - Taxes less Refunds	$	533.7	$	539.6
OTHER SOURCES				
Motor Vehicle Receipts	$	200.7	$	205.0
License, Permits, and Fees		130.7		132.0
Interest Income		40.5		35.0
Federal Grants (FTA)		3.3		3.3
Transfers to Other Funds		(3.0)		(8.5)
Transfers to Emission Enterprise Fund		(6.5)		-
Total - Other Sources	$	365.7	$	366.8
Less Refunds of Payments		(2.5)		(2.8)
TOTAL REVENUE	$	896.9	$	903.6

[1] Some totals may not be exact due to rounding.

Transportation Fund Projections FY 03 - FY 08
as of November 12, 2002
(in millions)

	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08
Beginning Fund Balance as of July 1st	**$189.7**	**$192.7**	**$207.6**	**$218.4**	**$219.4**	**$222.7**
FY Revenues	903.6	921.4	935.1	949.0	963.0	975.0
FY Expenditures	900.6	906.5	924.3	948.0	959.7	983.0
FY Operating Surplus/(Deficit)	**$3.0**	**$14.9**	**$10.8**	**$1.0**	**$3.3**	**($8.0)**
Ending Fund Balance as of June 30th	**$192.7**	**$207.6**	**$218.4**	**$219.4**	**$222.7**	**$214.7**